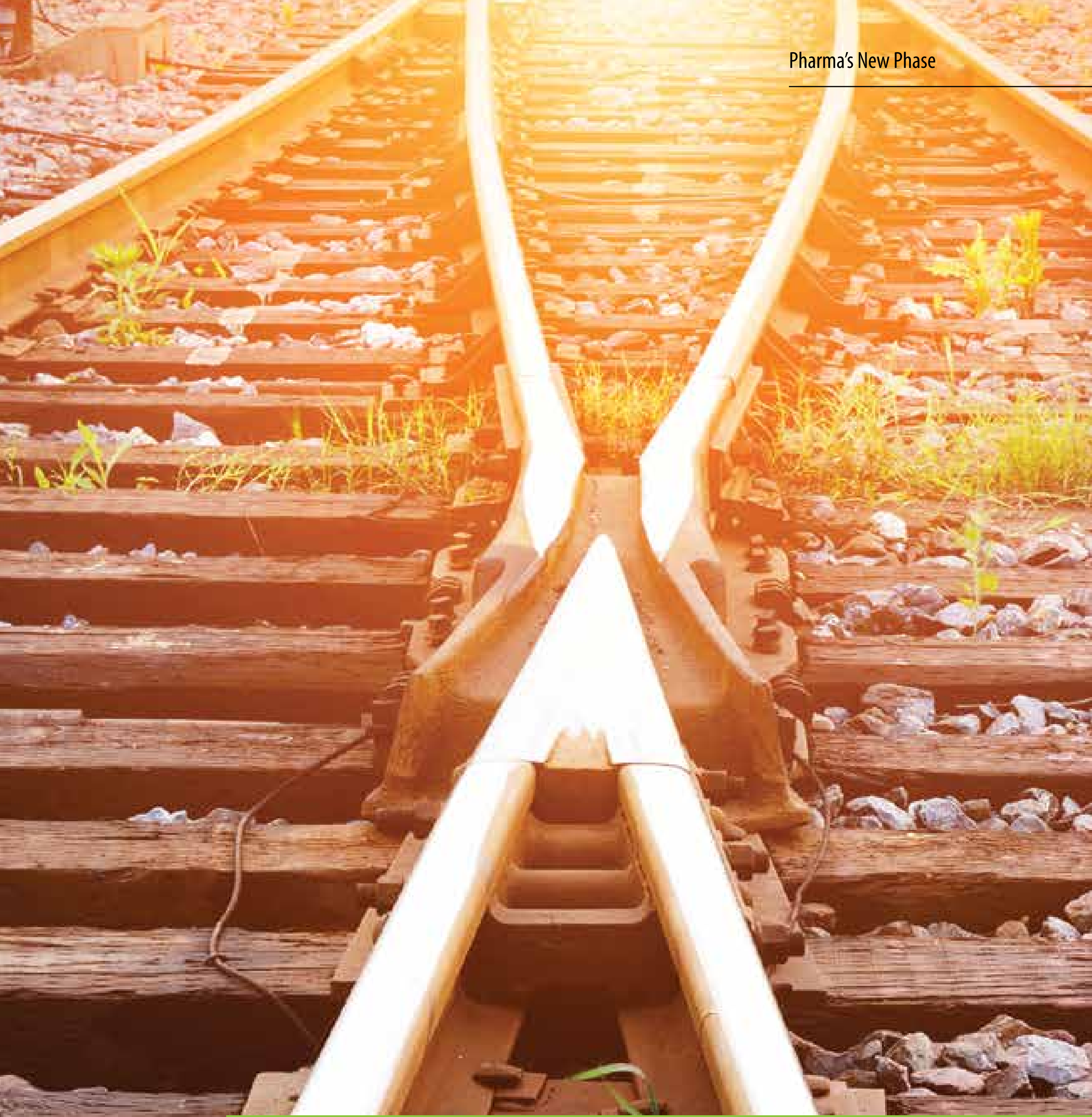
PHARMA'S NEW PHASE

Technological integrators play as crucial a role as banks in Big Pharma's latest M&A boom

They're back.

Mergers & acquisitions, that is – and in a big way. Wall Street and City of London bankers haven't seen this kind of action since before the onset of the global economic crisis. Indeed, it has been a while since global corporations considered expanding their business lines by acquiring rivals and merging with powerful new players in the industry.

Overall, a number of factors are influencing this M&A renaissance, not the least of which is the mountains of cash that corporations have on their balance sheets. Among the hottest industries that now enjoy the upsurge in global commerce, lower interest rates, and overall economic confidence is Big Pharma. No sector continues to evolve faster, or more profoundly than pharmaceuticals. Except for – possibly – the ever-complex book publishing business, no other industry even comes close in terms of how its underlying economics have changed.



The main reasons driving the M&A wave in pharma are:

1. As research productivity continues to decline for Big Pharma, they have become more and more sales and marketing companies. Sales and Marketing companies are much more amenable to economies of scale than research outfits, and hence the desire to really become BIG

2. With changing demographics, there are disease-classes that are becoming more prominent and profitable – especially age- and lifestyle-related diseases. There is hence, a need to rejig product portfolios to achieve growth and profitability targets

3. So-called "inversion" deals – in which, an American company domiciles its headquarters in another country to lessen its global tax burden

4. Finally, with several blockbuster drugs coming off-patent – where they lose 90% of their revenues – companies are merging / acquiring to simply bulk-up and recover their top-line

Gold standard names in Life Sciences companies such as Pfizer, J&J, GSK, Novartis, Bristol Myers Squibb, and AstraZeneca are reportedly looking to merge or acquire for a number of strategic reasons. Their M&A strategies might be complex and multidimensional, but the fiercely competitive stalwarts of Big Pharma need IT systems that are streamlined and simple. They're looking for technological synergies at every level, and within tight time frames. That can be a tall order. Manufacturing plants of blockbuster drugs have to be synchronized with equally large plants of the newly acquired company – sometimes a continent away. IT consulting for Big Pharma is not only about delivering on scale and reach, but also about being able to make outcome-based models ready to go, the moment the companies merge. Such expectations position talent on center stage – the right resources, both technical and domain experts, who are able to collaborate to make smart technology work for the stakeholders involved.

Lawyers and investment bankers still focus on how the companies come together on paper. But global IT consultancies are fast becoming the most vital go-to firms during big mergers of Life Sciences enterprises. That's because enormous corporations with complex strategies and top-secret drug pipelines can't allow mergers to slow down their operations. They need innovative thinking that is tailored to their sector. It is what's known as Day-1-Assurance. Knowing the ins and outs of the Life Sciences industry's radical transformation is what Day-1 is all about.

That's why this time around, as M&A activity picks up, Big Pharma and related industries like Biotech, Life Sciences, and Agrochemicals are facing issues that they've never before had to consider. This new wave of mergers and acquisitions, especially in the Life Sciences arena, has become so technical and specialized, that all companies involved require a strong technology integrator. Not only must the enterprises that merge have the appropriate guidance to make their technological operations as efficient and streamlined as possible, but also need the integrator to display and execute a deep knowledge of the complexities of the Life

Sciences sector. The IT partner must focus on building a core team of technical and domain experts who are clued up in pharma and can be leveraged across projects.

Another of the newer terms that they're using is a mouthful: "Specialization-Based Consolidation." Essentially that means today's change management and compliance alignments are not about simply making sure the lights stay on when two companies come together. These days, parts of companies are sold off before the main merger takes place. Secretive drug R&D programs have to remain purely "need-to-know." So the technological framework around such mergers has to be as innovative and groundbreaking as possible. Technological innovation must ensure discretion during merger processes – quite a challenge when deals involve multiple investment banks, law firms, advisors, and the leadership of the companies involved (often fierce rivals). It's vital to help life sciences companies in the throes of the merger process ensure that all of their IT systems operate seamlessly throughout all stages of the process. Customer Relationship Management solutions, Master Data Management, and massive data migration tools that selectively transfer data are all must-have ingredients of a process that requires corporate information to remain selective and discreet at all times.

There is so much complexity to the technological implementations, yet time is not on our side. This calls for extraordinary project management prowess, on the part of the systems integrator, and the ability to quickly understand the business situation and goals. So much depends on this. Pharmaceutical and Biotech firms operate within tight deadlines – the life of a patented molecule is only 20 years or so and that includes the time needed for commercialization and clinical trials. Their mergers and acquisitions require that their IT systems enable them to scale up quickly and achieve ambitious outcomes to both the board(s) of directors and shareholders. Billions of dollars are at stake if these enterprises do not use cutting-edge technology to deliver stellar – and fully expected – results. With so much money involved, boards of directors want to hear the sweet sound of success stories as quickly as possible. The executive leadership that proposed and closed these mega-deals certainly doesn't want the first post-merger reports to be about IT hiccups. Which is why senior management participation in the program – right from the outset – is crucial.

Hence, investment banks that pitch the financial benefits of mergers & acquisitions in the first place always, always make sure to tout their global reach.

I previously mentioned the new wave of corporate headquarter inversions that figure into the modern M&A process. Because these are multidimensional, cross-border mergers, enterprises must have IT systems that work anywhere on the planet, and are compliant with every nation's tax specifications. Hence, investment banks that pitch the financial benefits of mergers and acquisitions in the first place always, always make sure to tout their global reach. So, too, must today's IT consultants establish the fact that no matter what the country, product line, or software platform is, they will ensure that Life Sciences mergers come together seamlessly. Global reach and scale largely define an IT enterprise's full capabilities. No matter where the next life science M&A deal takes place, it is best to be prepared with a centrally mobilized IT workforce that operates and manages more efficiently than its peers.

I enjoy telling our partners that we pick up at the very moment McKinsey leaves. Yet that program prioritization has changed. These days it's not uncommon to be engaged from

soup to nuts – from the pre-assessment phase and onward until all the technology of the merged companies are enabled and integrated. Today's IT consultancy typically has a greater overall role in the strategic planning of mergers and divestitures. IT is becoming part of every process – from value analysis to creating a technology roadmap to implementing new frameworks. Teams from the organizations that are being merged as well as teams from the integrator must come up to speed with each other's processes, systems, and business environments before, during, and after the merger. More importantly, cultural barriers, which are inevitable in trans-continental mergers, must disappear the moment conversations start towards a probable closure.

The life science sector's heightened M&A activities mean we are helping enterprises to renew today, to prepare them to explore new opportunities in the future.

Author

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Manish is responsible for overseeing services and solutions for global clients. He manages critical relationships with client executives, industry analysts, deal consultants, and anchors the training and development of key personnel. Manish is responsible for crafting and delivering business and technology solutions, while working with a globally distributed set of associates. Prior to this role, Manish was the Global Delivery Head of IT services for Financial Services and Insurance (FSI), responsible for nearly 35 percent of Infosys revenues. And before FSI, he reinforced the testing business for Infosys, doubling the revenues in just three years. He accomplished this by improving margins, the business mix, as well as the market positioning. Manish has around 22 years of industry experience, including three years as an entrepreneur.

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